

# EXHIBIT H

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

ASSURED GUARANTY MUNICIPAL	)	
CORP., f/k/a FINANCIAL	)	
SECURITY ASSURANCE INC.,	)	
Plaintiff,	)	
	)	Case No.
vs.	)	11-CV-2375 (JSR)
	)	
	)	
FLAGSTAR BANK, FSB;	)	
FLAGSTAR CAPITAL MARKETS	)	
CORPORATION; and FLAGSTAR	)	
ABS, LLC,	)	
Defendants.	)	
	)	

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November 17, 2011

9:50 a.m.

Videotaped deposition of GEORGE STIEHL,  
held at the offices of Arnold & Porter, 399 Park  
Avenue, New York, New York, pursuant to notice,  
before Barbara Driscoll, a Notary Public of the  
State of New York.

1 STIEHL

2 occurred after 2009?

3 MR. BUCHDAHL: Objection to the form.

4 A. I actually don't remember if it was  
5 last summer or the summer before.

6 Q. Let's go back to 1999 when you started  
7 working at FSA.

8 What was your job responsibilities when  
9 you came on board?

10 A. My job responsibilities was working in  
11 the residential mortgage group.

12 Q. What was your title at the time you  
13 came on board?

14 A. Either associate or analyst.

15 Q. Are those two titles effectively  
16 synonymous with one another?

17 A. No. I don't know if I came in as --  
18 analyst is generally below an associate. So I  
19 don't know if I came in as an associate or  
20 analyst. I think it was analyst.

21 Q. Your best recollection is that you came  
22 in as an analyst in 1999?

23 A. Yes.

24 Q. What were your job responsibilities as  
25 an analyst in the RMG group?

1 STIEHL

2 A. I was responsible for analyzing the  
3 collateral for the securitizations --

4 Q. When you refer to the RMG group, what  
5 are you referring to? What is RMG?

6 MR. BUCHDAHL: Objection to the form.

7 A. RMG is the acronym for the group I  
8 worked in.

9 Q. What does it stand for, RMG?

10 A. Residential mortgage group.

11 Q. When you joined in 1999, you were  
12 analyst, to the best of your recollection, in the  
13 residential mortgage group of FSA?

14 A. Yes.

15 Q. Your job was to analyze collateral for  
16 securitizations?

17 A. Correct.

18 Q. What do you mean by analyzing  
19 collateral for securitization?

20 A. We were sent mortgage loan tapes which  
21 is an Excel spreadsheet containing loans that were  
22 part of the securitization that we were  
23 contemplating involving ourselves in.

24 Q. Who would send you those tapes?

25 A. Bankers, originators. It wasn't just

1 STIEHL

2 A. I don't think that you can make that  
3 assessment. I think it is more on an individual  
4 assessment.

5 Q. I understand -- I think I understand  
6 what you're saying, but my question is, when the  
7 Access model is considering LTV for purposes of  
8 determining foreclosure frequency and loss  
9 severity, my question is in what manner do you  
10 understand the Access data base is taking the LTV  
11 into consideration?

12 A. The Access model includes a higher  
13 foreclosure frequency factor for higher loss  
14 severities and -- for higher LTV's.

15 Q. Why is that?

16 A. I didn't set up the model.

17 Q. Do you have an educated guess as to why  
18 it is?

19 MR. BUCHDAHL: Objection to the form.

20 A. Do I have an educated guess? My --  
21 yeah. If a borrower has less -- my thinking is  
22 the reason why there is a higher factor, and this  
23 might not be the reason why this was intended in  
24 the model, I am just guessing, would be because a  
25 borrower that has no equity, no skin in the game,

1 STIEHL

2 can input any money down on the property; has less  
3 incentive to -- has less incentive to pay -- it is  
4 easier for that borrower to walk away from the  
5 property because they have less -- they are not  
6 losing anything.

7 Q. They have less skin in the game?

8 A. Right.

9 Q. You referred to, as another credit  
10 quality of the loans that would be considered on  
11 the Access data base --

12 A. Can I just -- I am sorry, not to  
13 interrupt you. I want to go back to that point.

14 But again, that is what the model uses  
15 as a predict -- it is a higher LTV equates to a  
16 higher factor, but it really -- it is still  
17 dependent upon other factors, other -- it is an  
18 aspect of the model, but other -- it is not the  
19 only aspect of the model.

20 The borrower's FICO score and the level  
21 of documentation affect the foreclosure factor  
22 that is established for that loan. So it is not  
23 the only driver of foreclosure frequency in the  
24 model.

25 Q. Understood. It is one of different

1 STIEHL

2 Q. What was the purpose of FSA using the  
3 Access model; why would it do that?

4 A. Why would we -- to assess -- to try to  
5 understand the risk profile of a mortgage  
6 portfolio.

7 Q. What was the purpose? How would that  
8 be utilized by FSA? So the Access -- you get the  
9 loan data tape. It would be run through the  
10 Access model. It would generate a foreclosure  
11 frequency and loss severity of loans calculation,  
12 correct?

13 A. Yes.

14 Q. What you think you were earlier calling  
15 an expected loss calculation; is that correct?

16 A. That is correct.

17 Q. My question for you is, what was the  
18 purpose of FSA coming to this expected loss number  
19 based upon risk factors associated with the  
20 collateral?

21 A. Because we were -- the -- part of our  
22 business was writing insurance policies on  
23 certificates that were backed by pools of  
24 mortgages.

25 Q. It is okay. It is a little unnatural.

1 STIEHL

2 If you can keep your voice because it  
3 is important --

4 A. I am not trying to not keep it up. I  
5 am just forgetting.

6 Q. That is okay. That is one of the  
7 reasons this is a fun exercise; you get to talk  
8 louder than you normally do.

9 At what point in the process did you  
10 understand the Access model was being utilized by  
11 FSA in connection with it considering underwriting  
12 insurance for a securitization transaction?

13 MR. BUCHDAHL: Objection to the form.

14 A. Can you say that in another way? I  
15 don't think I understood.

16 Q. At what point in the insurance  
17 underwriting process was the Access model used by  
18 FSA?

19 A. It could have been used throughout the  
20 process of doing analysis on a deal, but it was  
21 generally one of the first things that we would --  
22 it was generally one of the first things that we  
23 analyzed, but like I said, it could have been used  
24 throughout the whole process.

25 Q. But in a typical transaction, it would



1 STIEHL

2 happen earlier in the process as compared to later  
3 in the process?

4 A. Transactions would sometimes not --  
5 would grow, would shrink, would change a little  
6 bit, so it was really deal dependent.

7 Q. What would allow -- what expected loss  
8 was in an acceptable tolerance range for FSA in  
9 HELOC transactions versus an unacceptable  
10 tolerance level on HELOC transactions?

11 MR. BUCHDAHL: Objection to the form.

12 A. I don't think that the words acceptable  
13 tolerance, that is not -- there was never that  
14 threshold.

15 Q. I will ask you in your words, Access  
16 would generate an expected loss figure, correct?

17 A. Correct.

18 Q. How would FSA take that into  
19 consideration as far as determining whether to  
20 underwrite a transaction or not?

21 A. It was a piece of the analysis, but the  
22 expected loss is just one piece. It is also  
23 dependent upon the level of protection that the  
24 structure provides.

25 Q. When you say it is also dependent on

1 STIEHL

2 the level of protection that the structure would  
3 provide, now you're talking about the  
4 securitization structure?

5 A. Correct.

6 Q. Was there ever an expected loss that  
7 was too high to build what would be a market --  
8 what the market would accept as far as a  
9 structuring of a securitization?

10 MR. BUCHDAHL: Objection to the form.

11 A. I couldn't answer that question.

12 Q. When we talk about level of protection  
13 within the securitization structure, we are  
14 talking about such things as creating, in a deal,  
15 over-collateralization, excess spread, those kinds  
16 of mechanisms, correct?

17 A. Those are -- yeah, those are two of a  
18 bunch of different stuff.

19 Q. Those would be examples of the way you  
20 can structure a transaction to create what I would  
21 call a cushion within the transaction?

22 A. Correct.

23 Q. The idea of creating a cushion, from  
24 FSA's perspective, was to achieve a zero loss  
25 underwriting model, correct?

1 STIEHL

2 Q. Then you said FSA, as part of its  
3 decision making as to whether to underwrite a  
4 securitization transaction or not, would take into  
5 consideration a level of protection that could be  
6 provided by securitization structure, correct?

7 A. That is correct, but it is not the only  
8 -- but it wouldn't be the only consideration but  
9 yes, that is correct.

10 Q. What other considerations would there  
11 be?

12 A. Another example of a consideration  
13 would be the premium and the return on equity that  
14 we would receive for participating in a  
15 transaction.

16 Q. Did FSA in deciding whether or not to  
17 underwrite a transaction, the process by which  
18 expected loss, level of protection within a  
19 securitization structure, what premium could be  
20 charged and what return on equity could be  
21 expected from a transaction, those are the  
22 different components of FSA's underwriting  
23 decision making process, correct?

24 MR. BUCHDAHL: Objection to the form.

25 A. I am not sure. Did you include the

1 STIEHL

2 assessing the protection of the transaction?

3 Q. I did.

4 A. Those are a big picture, yes, but there  
5 were other considerations that someone like me  
6 would not have been a part of.

7 Q. But in the big picture that we just  
8 talked about, expected loss, level of protections  
9 afforded by securitization structure, what premium  
10 could be charged and what return on equity would  
11 be expected, is that the basic big picture  
12 components that FSA would consider in deciding  
13 whether or not to underwrite a transaction in your  
14 mind?

15 A. I can't say that is true -- that is 100  
16 percent true.

17 Q. What is inaccurate about it?

18 A. An assessment of the originator and an  
19 assessment of the servicer. There were -- I mean,  
20 there were a lot of -- there was a lot of analysis  
21 done when determining whether or not to involve  
22 ourselves in the transaction.

23 Q. There also would be file diligence,  
24 correct?

25 A. Correct.

1 STIEHL

2 Q. All of those considerations, expected  
3 loss, level of protection within a securitization,  
4 premium return on equity, assessment of the  
5 originator, assessment of the servicer and file  
6 diligence, were those the basic components of the  
7 underwriting process for FSA during the period of  
8 time when you got there through, let's say, 2007?

9 A. I think there were also some legal  
10 requirements, but I can't talk to what those were  
11 or what they encompassed, but I know our legal  
12 department was very involved in doing analysis on  
13 transactions that we were thinking about doing or  
14 we were currently working on.

15 Q. With that addition, I just want to make  
16 sure that we are talking about a process that was  
17 in place from 1999 through 2007, so we can be  
18 comfortable in time periods that we are speaking  
19 in.

20 Do you agree that all of the  
21 considerations we have just articulated are the  
22 considerations that would go into FSA's  
23 underwriting process from 1999 through 2007?

24 A. It was part of my underwriting  
25 transaction process, but I was one person on a

1 STIEHL

2 deal team and there might have been more analysis  
3 that was being done by other members of my deal  
4 team that I was not privy to.

5 Q. You worked on two Flagstar  
6 transactions, correct?

7 A. I did.

8 Q. The 2005-1 and 2006-2?

9 A. I did.

10 Q. If I refer to the transactions by those  
11 terms, you will understand what I am referring to?

12 A. I will.

13 Q. Were these the various considerations  
14 that went into the two Flagstar transactions?

15 MR. BUCHDAHL: Objection to the form.

16 A. Can you just repeat exactly what I  
17 said?

18 Q. Sure. Expected loss, level of  
19 protection within securitization structure,  
20 premium, return on equity, assessment of the  
21 originator, assessment of the servicer and file  
22 diligence.

23 MR. BUCHDAHL: Objection to the form.

24 A. From my recollection, that is what I  
25 remember; that is the analysis that I remember

1 STIEHL

2 being performed on the transaction.

3 I need to take a break.

4 THE VIDEOGRAPHER: This marks the end  
5 of tape number 1 in the videotape deposition  
6 of George Stiehl. We are going off the record  
7 the time is 10:49.

8 (Recess taken.)

9 THE VIDEOGRAPHER: This marks the  
10 beginning of tape number 2 in the videotape  
11 deposition of George Stiehl. We are going on  
12 the record. The time is 10:56.

13 Q. Mr. Stiehl, just because you haven't  
14 done this before, even though you haven't been  
15 re-sworn in, every time you begin to testify  
16 again, you're under the same oath to testify  
17 truthfully under penalty of perjury.

18 A. I understand.

19 Q. A number of times in your answer, we  
20 made reference to file diligence.

21 What do you mean when you talk about  
22 FSA engaging in file diligence?

23 A. On this transaction or in general?

24 Q. Would it be different if you talked  
25 about this transaction versus in general?

1 STIEHL

2 A. Sure.

3 Q. Why don't you tell me in general and  
4 then we can talk about this transaction.

5 A. This in general depends upon what time  
6 period that you're talking about.

7 When I first started file diligence, we  
8 were taking -- we were guaranteeing a bigger  
9 portion of the portfolios -- of the certificates,  
10 not the portfolios, of the certificates that were  
11 backed by the mortgage portfolios and so we  
12 conducted file diligences.

13 Q. When you said you first started doing  
14 file diligence, when was that?

15 A. Within the first couple of years of my  
16 employment.

17 Q. So somewhere in the 2002, 2003 time  
18 arena?

19 MR. BUCHDAHL: Objection to the form.

20 A. I don't remember exactly when I  
21 started, but it would have been -- I started in  
22 1999. It would have been within two years, so two  
23 -- but it could have been six months out of the  
24 gate, but I am saying within two years it is safe  
25 to say I was working on file diligences.



1 STIEHL

2 Q. When you first started doing file  
3 diligences, what was your personal role in  
4 performing them?

5 A. It was going out to actually  
6 participate in the process, watching underwriters  
7 underwrite loans -- watching auditors underwrite  
8 loans -- re-underwrite loans.

9 Q. You said when you were first involved  
10 in the process, you would actually go out and  
11 watch auditors re-underwrite loans; is that  
12 correct?

13 A. That is correct.

14 Q. When you refer to auditors, what do you  
15 mean by that phrase?

16 A. Members of the diligence firm.

17 Q. When you would go -- when we are  
18 talking about diligence firms, those are the firms  
19 that would go and re-underwrite the loans that  
20 could be included in a securitization that FSA may  
21 wrap?

22 MR. BUCHDAHL: Objection to the form.

23 A. I lost you in the middle.

24 Q. I just want to make sure we are on the  
25 same page. When you talk about auditors or

1 STIEHL

2 diligence firms re-underwriting loans, what we are  
3 talking about is a third party company that would  
4 go and re-underwrite loans that could be included  
5 in a securitization transactions that FSA was  
6 considering wrapping with insurance; is that  
7 correct?

8 A. That is correct.

9 Q. What diligence firms, when you would go  
10 out and watch them re-underwriting loans, what  
11 diligence firms do you recall working with?

12 A. Mortgage -- MDMC, Mortgage Data  
13 Management Company, I think that is the name of  
14 the firm that the acronym stands for, but it is  
15 definitely MDMC.

16 I think that was the firm I worked with  
17 the most. That is the one I remember.

18 Q. Have you ever worked with Bohan?

19 MR. BUCHDAHL: Objection to the form.

20 A. When? I mean, throughout my career?

21 Q. No. Now I am talking about when you go  
22 out and watch auditors re-underwriting loans, did  
23 you ever work with Bohan?

24 A. I might. I don't remember.

25 Q. Did you ever go out and watch Clayton

1 STIEHL

2 transactions that FSA wrapped?

3 A. I received the diligence results from a  
4 few auditing firms.

5 I don't remember if I ever participated  
6 in a diligence visit where I was on the ground.

7 Q. Would you help or at least oversee the  
8 selection of the random sample of loans that would  
9 be used in the file diligence?

10 A. Oversee it? I am not trying to be  
11 difficult. What do you mean by oversee? I was  
12 involved in giving the direction to generate a  
13 random sample.

14 Q. What did that involve, giving direction  
15 to generate a random sample?

16 MR. BUCHDAHL: Objection to the form.

17 We are speaking generally.

18 MS. RENDON: We are speaking about

19 HELOC securitizations?

20 MR. BUCHDAHL: But not our deals.

21 MS. RENDON: For the moment, yes.

22 A. Can we start over?

23 Q. You said that your involvement on HELOC  
24 securitizations's file diligence included giving  
25 direction to generate a random sample. My

1 STIEHL

2 question is, what do you mean by that?

3 A. I mean asking the person that -- asking  
4 someone to calculate -- to provide me a list of  
5 loans that were randomly selected from the pool.

6 I thought we were talking about this  
7 deal when you -- we were -- I would like to make  
8 that clear. I don't think I was involved in any  
9 other HELOC transactions and so I was not involved  
10 in any other HELOC diligences.

11 Q. Fair point. So the only HELOC file  
12 diligences you recall being involved in were for  
13 the two Flagstar transactions; is that correct?

14 A. My recollection right now, that is  
15 correct.

16 Q. When you said you gave direction to  
17 generate a random sample and you said that  
18 involved asking someone to give a list of loans  
19 randomly selected, that was a direction you recall  
20 giving in connection with these two different  
21 transactions, the 05-1 and 06-2 Flagstar  
22 transactions?

23 MR. BUCHDAHL: Objection.

24 A. I don't remember actually giving the  
25 direction, but I know that we generated a random

1 STIEHL

2 sample. So I am guessing that I gave that  
3 direction, but I don't actually remember giving  
4 that direction.

5 Q. I will show you e-mails later on that  
6 might refresh your recollection in that regard.

7 Was it to Ryan Ashley that you recall  
8 giving that direction?

9 A. I don't remember giving that direction.  
10 I just -- I know that we did select a random  
11 sample of loans. I don't actually remember giving  
12 that direction.

13 Q. When you said I know we did select a  
14 random sample of loans, what do you mean by that?  
15 Explain that better to me by what you mean by  
16 that.

17 MR. BUCHDAHL: Objection to the form.

18 A. I remember that the diligence process  
19 at least for the 05-1 transaction involved two  
20 samples, and from my recollection, I remember us  
21 selecting the loans in the second sample.

22 Q. On a random basis?

23 A. On a random basis.

24 Q. When you say selecting on a random  
25 basis, what was the purpose of selecting on a

1 STIEHL

2 random basis?

3 A. The purpose for selecting on a random  
4 basis is so that we get a sense of the pool as a  
5 whole. If there are any issues with a sample that  
6 is selected randomly, you would think that -- our  
7 thinking was that it would represent issues that  
8 could be found in a portfolio.

9 Q. In other words, by selecting randomly,  
10 you were trying to get a sample that was  
11 representative of the collateral that would be  
12 submitted to the securitization as a whole?

13 A. That is correct.

14 Q. On the 2006-2 transaction, do you  
15 recall going through that same exercise, having a  
16 -- giving direction for a random selection of  
17 loans?

18 A. I don't recall that.

19 Q. What do you recall once a random -- I  
20 will say a random representative sample was  
21 selected, what was the purpose of -- what then  
22 happened to those loans?

23 MR. BUCHDAHL: Objection to the form.

24 A. What happened to those loans, meaning  
25 what did we do?

1 STIEHL

2 Q. Yes. I am sorry. That's right.

3 So a random representative sample you  
4 recall being selected for -- you recall random  
5 representative sample being selected for 2005-1  
6 Flagstar transaction; is that correct?

7 A. Yes.

8 Q. Once that selection was made, what  
9 happened with those loans?

10 A. What did I do with those loans?

11 Q. Or just what was the idea of what was  
12 going to happen to those loans, whether it was to  
13 be performed by you personally or more generally?

14 A. That those loans would be selected for  
15 review by the diligence firm.

16 Q. When you say that, what did you  
17 understand they were going to do?

18 A. We never gave them -- I don't --  
19 according to my recollection, I don't remember  
20 ever giving them direction other than to -- by  
21 they, I mean the diligence firm and I am not sure  
22 I ever gave the diligence firm direction.

23 I might have given the banker direction  
24 who was -- who had hired the diligence firm for  
25 this transaction -- these transactions.

1 STIEHL

2 The only direction that I remember  
3 giving them is that we would like to have the  
4 loans underwritten to our guidelines.

5 Q. When you say underwritten to our  
6 guidelines, are you referring to FSA guidelines?

7 A. That is correct.

8 Q. What does that mean -- what was the  
9 expectation in giving the direction that the  
10 diligence firm would underwrite to FSA guidelines?  
11 What with more detail -- what was your expectation  
12 that that would entail?

13 A. We have a set of guidelines that  
14 creates grades based upon credit quality of the  
15 loans.

16 Q. When you say that a direction was given  
17 for the diligence firm to underwrite to FSA's  
18 guidelines, what did you actually expect them to  
19 do? How were they supposed to underwrite to FSA's  
20 guidelines?

21 A. Our guidelines are a set of rules that  
22 when an auditor is reviewing certain documents of  
23 the loan, that they evaluate, for example, the  
24 credit report to come up with a credit grade.

25 Q. What other things?



1 STIEHL

2 A. I believe the borrower's debt-to-income  
3 is used as far as the LTV.

4 Q. But give me more detail of what you  
5 expect the diligence firm to do in evaluating  
6 debt-to-income or LTV what do you actually expect  
7 them to do?

8 A. I expect them to re-calculate the  
9 borrower's -- the borrower provides information to  
10 the underwriters, so recalculating the borrower's  
11 debt over the borrower's reported income and that  
12 is it. That would be for DTI. LTV is just  
13 calculating the loan over the appraised property  
14 price.

15 Q. Did you expect them to use only the  
16 information contained in the loan files they  
17 received from the originator or to obtain  
18 additional information, if necessary, for them to  
19 underwrite to FSA's guidelines?

20 MR. BUCHDAHL: Objection to the form.

21 A. My -- I can't speak for everybody else.  
22 My personal opinion is that it was based upon the  
23 information in the loan file, but I don't know if  
24 that was everybody's expectation.

25 Q. Did you understand that the diligence

1 STIEHL

2 firm on the 2005-1 Flagstar transaction was also  
3 going to underwrite to the originator's  
4 underwriting guidelines, not just FSA's?

5 MR. BUCHDAHL: Objection to the form.

6 A. That is correct.

7 Q. Describe for me what you understand  
8 that process to entail.

9 A. The underwriter is -- the diligence  
10 firm is provided the underwriter's guidelines and  
11 tries to make sure that the loan was originated  
12 under the originator's guidelines and that the  
13 loan is in compliance with various laws that I am  
14 not familiar with.

15 Q. Was there, both in this underwriting to  
16 the underwriters guidelines or I will say the  
17 originator's guidelines -- are you comfortable  
18 with me using that phrase?

19 A. Sure.

20 Q. And here the originator would be  
21 Flagstar, correct?

22 A. Correct.

23 Q. When the diligence firm was  
24 underwriting to Flagstar's guidelines, did you  
25 understand they were both underwriting for

1 STIEHL

2 diligence was being performed, correct?

3 MR. BUCHDAHL: Objection to the form.

4 You asked this question now four times.

5 The witness has given you his answer.

6 Q. You can answer, Mr. Stiehl.

7 MR. BUCHDAHL: If you have anything  
8 else to say.

9 A. I don't know how else to say what I  
10 meant.

11 Q. We talked about the firm -- the  
12 diligence firm looking for compliance with the  
13 originator's underwriting guidelines, correct?

14 A. Correct.

15 Q. There were different levels that the  
16 FSA system asked the diligence firm to utilize in  
17 grading or looking at compliance with originator  
18 guidelines, correct?

19 MR. BUCHDAHL: Objection to the form.

20 A. That is not correct.

21 Q. I will ask you this.

22 Are you familiar with the phrases event  
23 level 1, 2 and 3?

24 A. Yes.

25 Q. What do you understand those phrases to

STIEHL

1  
2 firms their guidelines on how -- what qualifies a  
3 loan to be originated and so the originator should  
4 have loans conform to those guidelines.

5 Q. If they do comply in 100 percent, that  
6 is an event level 1, correct?

7 A. Comply 100 percent without any  
8 exception, I think that is -- yeah, that is my  
9 understanding.

10 Q. Of what an event level 1 is?

11 A. Yes.

12 Q. So event level 2 is where there is a  
13 finding of an exception to the originator's  
14 underwriting guidelines by the diligence firm?

15 A. That is correct, but an exception with  
16 some type of compensating factor, not an exception  
17 though that -- an exception that the diligence  
18 firm, for lack of a better word, viewed as not a  
19 major exception.

20 Q. It was not a material exception; is  
21 that what you mean?

22 A. That is what I mean.

23 MR. BUCHDAHL: Objection to the form.

24 Q. I am sorry. You said that is what you  
25 meant?

1 STIEHL

2 allowed an originator to get comfortable with  
3 going outside their guidelines.

4 Q. An event level 3 would be an exception  
5 to the guidelines according to the diligence firm  
6 who is now looking at a loan originated by the  
7 originator that had an exception to the  
8 underwriting guidelines that was material and  
9 there wasn't an adequate compensating factor; is  
10 that correct?

11 MR. BUCHDAHL: Objection to the form.

12 A. The way I looked at it, it was an issue  
13 that an event level 3 -- I needed -- for my job I  
14 needed to assess the level of event level 3's in a  
15 diligence.

16 I wouldn't have to assess the level of  
17 event level 1's or 2's in a diligence and by  
18 assess, I needed to understand what the issues  
19 were of the event level 3's and communicate that  
20 in my presentation.

21 Q. Why was it that you would have to  
22 develop an understanding to make sure to  
23 communicate in your presentation the occurrence of  
24 an event level 3?

25 A. Because the loan was flagged for some

1 STIEHL

2 reason that the third party wanted us to see.

3 They wanted us to understand what is in the

4 diligence.

5 Q. It was a material problem potentially  
6 with that loan?

7 MR. BUCHDAHL: Objection to the form.

8 A. I don't -- I can't say for every event  
9 level 3, that was the case, but the possibility  
10 was there.

11 Q. I see. So you would need to look at it  
12 and understand it better because it was possible  
13 there could be a material problem with the loan?

14 MR. BUCHDAHL: Objection to the form.

15 A. I don't know if it would be a material  
16 problem with the loan. I don't -- there was some  
17 issue with the underwriting that the auditor  
18 wanted me to focus on.

19 I don't know if they or I were making  
20 an assessment of the consequence of that issue.

21 Q. Did anybody ever make an assessment of  
22 the consequence of that issue?

23 MR. BUCHDAHL: Objection to the form.

24 A. Did anybody?

25 Q. Yes. At FSA.

1 STIEHL

2 MR. BUCHDAHL: What issue?

3 Q. You can answer the question.

4 A. Were event level 3's discussed at FSA?

5 Yes.

6 Q. Why were they discussed, to your  
7 understanding?

8 A. Because the auditor had -- because a  
9 diligence -- a third party diligence firm had  
10 reviewed loans and found that these loans, for  
11 whatever reason, there was an issue related to it.  
12 And it could have been -- it wasn't just adhering  
13 to the originator's guidelines.

14 It depended upon what the reason they  
15 flagged for it -- for us was, but I don't think  
16 that every event level 3 loan that was ever  
17 flagged was a material -- could lead to a material  
18 consequence to us as a bond insurer. We would  
19 identify the loans and understand -- talk about  
20 what the reason was for it to be coded as that.

21 Q. The reason why you would go and give  
22 that harder look at the loans that had been  
23 identified as event level 3 was in order to  
24 determine if, in fact, there was a material  
25 problem with that loan or whether it was

1 STIEHL

2 Q. If there was a determination of  
3 materiality by FSA on an event level 3 coded loan  
4 what would happen to that loan?

5 MR. BUCHDAHL: Objection to the form.

6 A. It wouldn't -- it wouldn't be  
7 consistent -- it would really depend upon what the  
8 issue was. It would depend upon what the reason  
9 for the event level 3 was.

10 Q. Can you explain -- give me the range of  
11 possibilities of what might happen in the  
12 scenarios that you're describing?

13 MR. BUCHDAHL: Objection to the form.

14 A. We had done diligences that we found  
15 issues where we no longer wanted to participate in  
16 the transaction and we found issues where we  
17 didn't think there was any -- they would have no  
18 effect to -- I don't even know -- I just know that  
19 we had completed diligences in which we have found  
20 issues with loans that we didn't want to  
21 participate in.

22 I don't think that we removed loans.  
23 There is no reason to remove loans if you're doing  
24 a sample because this issue will be present in the  
25 rest of the portfolio. This is just my



1 STIEHL

2 recollection of instances where we removed loans.

3 Just generally.

4 I am going to need a food break,  
5 something soon. I am getting weary.

6 MS. RENDON: We can stop here and we  
7 can take a lunch break or I can go for another  
8 half an hour and take a lunch break. Up to  
9 you, Mr. Stiehl.

10 MR. BUCHDAHL: Just for what it is  
11 worth, I asked them to bring sandwiches over  
12 at 12:30.

13 MS. RENDON: Off the record.

14 THE VIDEOGRAPHER: This marks the end  
15 of tape number 2 in the videotape deposition  
16 of George Stiehl. We are going off the  
17 record. The time is 11:55.

18 (Recess taken.)

19 THE VIDEOGRAPHER: This marks the  
20 beginning of tape number 3 in the videotape  
21 deposition of George Stiehl. We are going on  
22 the record. The time is 12:04.

23 Q. We have been referring to Clayton and  
24 Bohan, correct?

25 A. Yes, for the diligences.

1 STIEHL

2 make sure I was getting everything. Can you break  
3 it up?

4 Q. I will ask you to say it so it is not  
5 my words. It is yours.

6 When Clayton and Bohan were  
7 re-underwriting the loans to look at -- under  
8 Flagstar's originator's underwriting guidelines,  
9 what did you understand they were supposed to do?

10 A. They were supposed to match up the  
11 guidelines that the originator had provided them  
12 with a loan file, so that they could make sure  
13 that they adhered to the guidelines.

14 Q. When they found there was an exception  
15 to those guidelines, they would then look for --  
16 the diligence firm would then look for  
17 compensating factors in the file?

18 A. Yeah -- I don't know if it was done  
19 after or during the process, but if there was an  
20 exception to the guidelines, compensating factors  
21 were looked for, yes.

22 Q. By the diligence firm?

23 A. By the diligence firm, yes, by the  
24 auditor underwriting the auditing loan.

25 Q. That is when they would make the level

1 STIEHL

2 2 or level 3 determination that we were talking  
3 about previously?

4 A. I don't think that -- I mean, there  
5 were a lot of iterations of level 1, level 2. The  
6 way a diligence would proceed, they would do their  
7 initial review and then have findings and then  
8 discuss the findings with the originator and there  
9 was a lot of back and forth related to the initial  
10 review; exceptions were being presented -- sorry,  
11 compensating factors would be presented;  
12 exceptions would be cleared.

13 So it was a lot of back and forth. It  
14 wasn't just, we did a review and then these are  
15 the event levels. There was a lot of interaction  
16 between the diligence firm and the originator.

17 Q. The diligence firm would make initial  
18 assessments; come up with certain exceptions and  
19 then go back to the originator to see if the  
20 exceptions could be cleared?

21 A. To see if -- yeah. It might not have  
22 been just issues that they could have been  
23 cleared. It could have been they were looking at  
24 the wrong document. There was some type of --  
25 there was a mistake in the auditors -- it was just

1 STIEHL

2 Q. Was that problematic in your mind?

3 MR. BUCHDAHL: Objection to the form.

4 A. It wasn't problematic because of my  
5 experience with how diligences usually proceed.

6 It is sometimes -- at times can be a  
7 logistical nightmare with the number of files and  
8 papers that are being passed along.

9 Q. When you say it was not problematic,  
10 given your experience with how diligences proceed,  
11 is it fair to say it wasn't uncommon to have a  
12 high level of initial findings of event level 3  
13 and then there being a process by which those  
14 issues that cause it to be identified as event  
15 level 3 were cleared?

16 MR. BUCHDAHL: Objection to the form.

17 A. It really is dependent upon the  
18 originator and how the files were sent over and  
19 how the process went. It is not just a -- every  
20 diligence encompasses a bunch of, you know, event  
21 level 3's that get cleared. Sometimes that is the  
22 case and sometimes not.

23 I am just saying because I know of how  
24 granular it gets, it didn't bring up a problem in  
25 my mind because I know it was a possibility.

1 STIEHL

2 believe it was the only Flagstar transaction that  
3 we looked at in 2005. I am not 100 percent sure,  
4 but that would be my guess.

5 Q. I represent to you that is consistent  
6 with my understanding as well.

7 What was your role on the Flagstar  
8 2005-1 transaction?

9 A. My role was to review the results from  
10 the Access model and to prepare the presentation  
11 for our credit committee, to review the diligence  
12 results and to set up the cash flow, the -- to  
13 help to set up the cash flow model.

14 Q. What do you mean by to set up the cash  
15 flow model?

16 A. So the structure -- to model the  
17 structure in an Excel spreadsheet.

18 Q. When you say to review diligence  
19 results, that ties back to the conversation we  
20 were having earlier. You're referring to  
21 reviewing the file diligence results?

22 A. Yes.

23 Q. When you said to prepare a  
24 presentation, can you describe in more detail what  
25 you mean by that?

1 STIEHL

2 A. In order for us to participate in a  
3 transaction, we would have to write a -- we would  
4 have to write a credit package -- not a credit  
5 package, but an MRC package, management review  
6 committee, and that would be presented to our  
7 credit committee who had the final decision as to  
8 if we participate in the transaction or not.

9 Q. In this e-mail, the original one, it is  
10 from Paul White to David Beard.

11 What did you understand Mr. Beard's  
12 role -- Mr. Beard was an employee of FSA at this  
13 time, correct?

14 A. He was.

15 Q. What did you understand Mr. Beard's  
16 role to be on the Flagstar 2005-1 transaction?

17 A. His role was to -- he was my manager  
18 and so he was the overseer of any analysis that I  
19 produced on the deal.

20 Q. The original e-mail is from Paul White  
21 to David Beard. Do you know who Mr. White is?

22 A. I believe he was the banker from JP  
23 Morgan.

24 Q. The original e-mail says, and this is  
25 on AGM 042286653, we would like to invite you to

1 STIEHL

2 access to all the underwriting guidelines.

3 Q. Your original e-mail says, I am  
4 reviewing your HELOC guidelines. So it appears  
5 from your original e-mail that you had access to  
6 Flagstar's HELOC underwriting guidelines?

7 A. Yeah. You asked me if I was getting  
8 access to all their second liens and first liens.  
9 In the e-mail Brian provided to me, I don't know  
10 if I am getting all access to the first and second  
11 liens.

12 At a prior period of time, I might have  
13 been handed the second lien underwriting  
14 guidelines, but I am not sure if he was giving me  
15 access in the directions of his e-mail.

16 Q. So just to simplify even the question I  
17 asked of you, your original e-mail indicates that  
18 you have access to the Flagstar's HELOC  
19 underwriting guidelines, correct?

20 A. It appears that is the case, although I  
21 don't remember doing -- performing such a task,  
22 but yes, it looks like I had them.

23 Q. Then in the e-mail that Mr. Boike sent  
24 you on October 6 at 2005 at 5:50, he refers to  
25 there being a product description for the agency

1 STIEHL

2 attachment. I can't pick out the 125 loans. I  
3 don't know what their loan ID's -- I didn't  
4 memorize them because you're saying they are  
5 attachment to this, I would assume they are the  
6 125 loans.

7 Q. Look at Stiehl 9. The top e-mail  
8 appears to be an e-mail from yourself to Paul H.  
9 White at JP Morgan sending him the Flagstar 125  
10 random selection from the 10/05 tape with  
11 attachment to it. It says, here is our diligence  
12 sample.

13 What do you understand you're doing in  
14 that e-mail?

15 A. Providing JP Morgan our 125 randomly  
16 selected loans.

17 Q. What was the expectation that you had  
18 in providing that to JP Morgan?

19 A. My expectation that was JP Morgan was  
20 going to forward this sample to a diligence firm.  
21 I guess Clayton was the diligence firm that worked  
22 on the first diligence. I can't say that we were  
23 assuming that Clayton would do the second  
24 diligence, but -- that is what I would assume was  
25 the point of this.



1 STIEHL

2 figure as of December 2005, assuming the HELOC's  
3 in the portfolio were fully drawn?

4 A. It appears to be that way.

5 Q. The adjusted expected loss which we  
6 talked about previously, correct?

7 A. Correct.

8 Q. Reflects a tape grade of 8.23 percent?

9 A. Reflects a -- no. It reflects -- can  
10 you repeat?

11 Q. I will ask that again. Sure.

12 This page 3688 reflects adjusted  
13 expected loss off the tape grade of 8.23 percent,  
14 correct?

15 A. Correct.

16 Q. And a tape grade minus 1 adjusted  
17 expected loss of 13.2 percent?

18 A. Correct.

19 Q. Then adjusted expected loss with  
20 10 percent M. What does that mean, minimum?

21 A. Yeah -- I mean we talked about this  
22 earlier. I was unsure what that meant.

23 Q. The second attachment to this document  
24 is a FICO loss and I believe that starts at AGM  
25 4313714.

1 STIEHL

2 A. Yes.

3 Q. Would it be your expectation that this  
4 would reflect what FSA's FICO loss model was  
5 reflecting for the 2005-1 securitization as of  
6 December 5, 2005?

7 A. It appears to be the same analysis that  
8 we discussed earlier, just on the 2005 tape -- I  
9 mean, the December 5 tape.

10 THE VIDEOGRAPHER: This is the end of  
11 tape number 5 in the videotape deposition of  
12 George Stiehl. We are going off the record at  
13 5:25.

14 (Recess taken.)

15 MS. RENDON: We are marking Exhibit 25  
16 which is Bates AGM 04329220 through 9272.

17 (Stiehl Exhibit 25, Bates AGM 04329220  
18 through 9272, marked for identification, as of  
19 this date.)

20 THE VIDEOGRAPHER: This marks the  
21 beginning of tape number 6 in the videotape  
22 deposition of George Stiehl. We are going on  
23 the record. Time is it 5:42.

24 Q. While we were off the record, we marked  
25 Exhibit 25. This is from Mr. Hachikian to a

1 STIEHL

2 number of people, including yourself, related to  
3 Flagstar 2006-2. On 8720 it says, 250 dil sample.

4 What do you understand Mr. Hachikian is  
5 sending to you and others on December 15, 2006?

6 A. It appears to be a diligence sample for  
7 the Flagstar 2006-2 transaction.

8 Q. This appears to be the attachments to  
9 this or at least the attachment beginning at AGM  
10 4329248 to 22972. Does this appear to be a  
11 listing of randomly selected loans for the file  
12 diligence on the 2006-2 transaction?

13 A. I am guessing that is what this appears  
14 to be.

15 MR. BUCHDAHL: You said 249 --

16 THE WITNESS: 9248 --

17 Q. I said 9248 through the end of the  
18 document. Does that appear to be a listing of the  
19 250 randomly selected loans?

20 A. It looks to be more than 250 loans  
21 starting on 9428.

22 Q. The list of loans that appears starting  
23 on 9249 to the end of the document, does that  
24 appear to be --

25 A. I have no idea if these are the loans.

1 STIEHL

2 Q. I will ask you to look at AGM 43229267.

3 A. Sorry.

4 Q. I know you're getting tired. I need to  
5 authenticate this stuff so we can understand what  
6 these are.

7 On the pages appearing on AGM 4329249  
8 to the end of the document, does this appear to be  
9 a list of the 250 randomly selected loans?

10 A. I don't know if -- you asked me -- your  
11 first question is the information on 248 was the  
12 250 loans and it is showing 3,675 loans --

13 Q. Which I understand to be the amount of  
14 loans proposed for the transaction.

15 A. So I don't know if the next pages  
16 represent the loans that are the 3,000 or the 250.

17 Q. Understanding that this starting at AGM  
18 4329249 to the end of the document is, in its  
19 native form, an Excel spreadsheet, do you see on  
20 the first page beginning at 249, it says match and  
21 there is a number 1 through 69 on the first page?

22 A. Yes.

23 Q. Then if I ask you to turn to Bates  
24 stamp 267, that match column goes down to 250?

25 A. Okay.

1 STIEHL

2 Q. Does that cause you to believe that  
3 this is a list -- if we had printed it in Excel,  
4 that would show a list of 250 randomly selected  
5 loans?

6 A. It is a reason to believe that, yeah,  
7 sure.

8 Q. I will ask you to turn to Stiehl  
9 Exhibit 26, please.

10 (Stiehl Exhibit 26, AGM 04140675  
11 through 676, marked for identification, as of  
12 this date.)

13 MS. RENDON: Exhibit 26 is an e-mail  
14 stream bearing AGM 04140675 through 676.

15 Q. The bottom is from Ryan Ashley to Brian  
16 Boike at Flagstar copying yourself and Mr. Beard  
17 on September 15, 2006 and says, please find  
18 attached FSA's 250 loan random due diligence pool  
19 list for the Flagstar 2006-2 transaction. Then at  
20 the top it says, sorry this was returned the first  
21 time.

22 Is it your belief that by this e-mail  
23 Mr. Ashley was transmitting to Mr. Boike at  
24 Flagstar the list of the 250 randomly selected  
25 loans for the 06-2 transaction.

1 STIEHL

2 A. Appears to be the case.

3 (Stiehl Exhibit 27, Bates number  
4 04140402 through 0405, marked for  
5 identification, as of this date.)

6 Q. I will ask you to turn to Stiehl  
7 Exhibit 27, Bates number 04140402 through 0405.  
8 It contains an e-mail string on -- all of which  
9 occur on September 21, 2006. The original e-mail  
10 is from Joel C. Readance at JPM to folks at the  
11 Bohan group, Mr. Boike at Flagstar and Paul White  
12 at JP Morgan Chase.

13 Does it appear to be that Mr. Readance  
14 in his e-mail is explaining to folks at the Bohan  
15 group what the expectation is for their diligence  
16 of the 250 loan files?

17 MR. BUCHDAHL: Objection to the form.

18 A. It appears it is directions to Bohan  
19 from Mr. Readance.

20 Q. I will ask you to look at what is being  
21 marked as Stiehl Exhibit 28.

22 (Stiehl Exhibit 28, Bates AGM 04621901  
23 through 910, marked for identification, as of  
24 this date.)

25 Q. Look at Exhibit Stiehl 28. I will read